

(c) The Government (or mutually acceptable Government Affiliate) and MCC shall execute a Procurement Agreement, which agreement shall be in full force and effect as of the Entry into Force.

(d) The Government shall deliver a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative executing any document under this Compact, such written statement to be signed by a duly authorized official of the Government other than the Principal Representative or any such Additional Representative.

(e) The Government shall deliver a letter signed and dated by the Principal Representative of the Government certifying:

(i) That the Government has completed all of its domestic requirements for this Compact to be fully enforceable under Georgian law; and

(ii) That attached thereto are true, correct and complete copies of any decree, legislation, regulation or other governmental document relating to its domestic requirements for this Compact to enter into force, which MCC may post on its website or otherwise make publicly available.

(f) The Government shall have amended the Charter of MCA-Georgia to the satisfaction of MCC to provide for, among other things, waiver of control by the state controlling body over the operations and management of MCA-Georgia.

(g) MCC shall deliver a letter signed and dated by the Principal Representative of MCC certifying that MCC has completed its domestic requirements for this Compact to enter into force.

(h) MCC shall deliver a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative executing any document under this Compact such written statement to be signed by a duly authorized officer of MCC other than the Principal Representative or any such Additional Representative.

Section 4.2 Conditions Precedent to MCC Disbursements or Re-Disbursements. Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, all applicable conditions precedent in the Disbursement Agreement.

ARTICLE V. FINAL CLAUSES

Section 5.1 Communications. Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted, or submitted by either Party to the other under this Compact

shall be: (a) in writing; (b) in English; and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day; or (iii) two (2) business days after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate:

To MCC:

Millennium Challenge Corporation
Attention: Vice President for Country Programs
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N.W.
Washington, DC 20005
United States of America
Facsimile: (202) 521-3700
Email: VPCountryPrograms@mcc.gov (Vice President for Country Programs);
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Office of the Prime Minister
Attention: Prime Minister
7 Pavle Ingorokva Str.
Tbilisi, 0134 Tbilisi Georgia
Tel: (995-32) 92-22-43
Fax: (995-32) 92-10-69

With a copy to:

Chief Executive Officer
Millennium Challenge Georgia Fund
4 Sanapiro St.
Tbilisi, 0105 Georgia
Tel: (995-32) 93-91-12; 93-91-13; 93-91-33
Fax: (995-32) 93-91-44
Email: lashanidze@mcg.ge

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3.8, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail. This Section 5.1 shall not apply to the exchange of letters contemplated in Section 1.3 or any amendments under Section 5.3.

Section 5.2 Representatives. Unless otherwise agreed in writing by the Parties, for all purposes relevant to this Compact, the Government shall be represented by the individual holding the position of, or acting as, Prime Minister of Georgia, and MCC shall be represented by the individual holding the position of, or acting as, Vice President for Country Programs (each, a "*Principal Representative*"), each of whom, by written notice, may designate one or

more additional representatives (each, an "*Additional Representative*") for all purposes other than signing amendments to this Compact. The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority. A Party may change its Principal Representative to a new representative of equivalent or higher rank upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative.

Section 5.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties and subject to the domestic approval requirements to which this Compact was subject.

Section 5.4 Termination; Suspension.

(a) Subject to Section 2.5 and paragraphs (e) through (h) of this Section 5.4, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) Notwithstanding any other provision of this Compact, including Section 2.1, or any Supplemental Agreement between the Parties, MCC may suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation or sub-obligation related thereto, upon giving the Government written notice, if MCC determines, in its sole discretion that:

(i) Any use or proposed use of MCC Funding or Program Assets or continued implementation of the Compact would be in violation of applicable law or U.S. Government policy, whether now or hereafter in effect;

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(iii) The Government or any Permitted Designee has committed an act or omission or an event has occurred that would render Georgia ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(iv) The Government or any Permitted Designee has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of Georgia on one or more of the eligibility indicators contained therein;

(v) The Government or any Provider has materially breached one or more of its assurances or any covenants, obligations or responsibilities under this Compact or any Supplemental Agreement;

(vi) An audit, review, report or any other document or other evidence reveals that actual expenditures for the Program or any Project or any Project Activity were greater than the projected expenditure for such activities identified in the applicable Detailed Financial Plan or are projected to be greater than projected expenditures for such activities;

(vii) If the Government (1) materially reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein; (2) fails to contribute or provide the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact; or (3) fails to pay any of its obligations as required under this Compact or any Supplemental Agreement, including such obligations which shall be paid solely out of national funds;

(viii) If the Government, any Provider, or any other third party receiving MCC Funding or using Program Assets, or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking;

(ix) Any MCC Funding or Program Assets are applied (directly or indirectly) to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution;

(x) An event or condition of any character has occurred that: (1) materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder; (2) makes it improbable that the Objectives will be achieved during the Compact Term; (3) materially and adversely affects the Program Assets or any Permitted Account; or (4) constitutes misconduct injurious to MCC, or constitutes a fraud or a felony, by the Government, any Government Affiliate, Permitted Designee or Provider, or any officer, director, employee, agent, representative, Affiliate, contractor, grantee, subcontractor or sub-grantee thereof;

(xi) The Government or any Permitted Designee or Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the requirements of this Compact or any Supplemental Agreement to which the Government or any Permitted Designee or Provider is a party;

(xii) There has occurred a failure to meet a condition precedent or series of conditions precedent or any other requirements or conditions in connection with MCC Disbursement as set out in and in accordance with any Supplemental Agreement between the Parties; or

(xiii) Any MCC Funding, Accrued Interest or Program Asset becomes subject to a Lien without the prior approval of MCC, and the Government fails to (i) obtain the release of such Lien and (ii) pay solely with national funds (and not with MCC Funding, Accrued Interest or Program Assets) any amounts owed to obtain such release, all within 30 days after the imposition of such Lien.

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion, that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated.

(d) The authority to suspend or terminate this Compact or any MCC Funding under this Section 5.4 includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever.

(e) All MCC Funding shall terminate upon expiration or termination of the Compact Term; *provided, however*, reasonable expenditures for goods, services and works that are properly incurred under or in furtherance of this Compact before expiration or termination of the Compact Term may be paid from MCC Funding, provided that the request for such payment is properly submitted within sixty (60) days after such expiration or termination.

(f) Except for payments which the Parties are committed to make under noncancelable commitments entered into with third parties before such suspension or termination, the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part, shall suspend, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable, any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated portion of this Compact or such Supplemental Agreement, as applicable. In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancelable commitments related to the suspended or terminated MCC Funding. Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to Program Assets be transferred to MCC if such Program Assets are in a deliverable state; *provided*, for any Program Asset(s) partially purchased or funded (directly or indirectly) by MCC Funding, the Government shall reimburse to a U.S. Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset(s).

(h) Prior to the expiration of this Compact or upon the termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-Georgia, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from a Permitted Account through a valid

Re-Disbursement nor otherwise committed in accordance with Section 5.4(e), or (iii) any other matter related to the winding up of the Program and this Compact.

Section 5.5 Privileges and Immunities. MCC is an agency of the Government of the United States of America and its personnel assigned to Georgia will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America. The Government shall ensure that any personnel of MCC, including individuals detailed to or contracted by MCC, and the members of the families of such personnel, while such personnel are performing duties in Georgia, shall enjoy the privileges and immunities that are enjoyed by a member of the United States Foreign Service, or the family of a member of the United States Foreign Service, as appropriate, of comparable rank and salary of such personnel, if such personnel or the members of the families of such personnel are not a national of, or permanently resident in Georgia.

Section 5.6 Attachments. Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "*Attachments*") is incorporated herein by reference and shall constitute an integral part of this Compact.

Section 5.7 Inconsistencies.

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence:

- (i) Articles I through V; and
- (ii) Any Attachments.

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement between the Parties, the terms of this Compact shall prevail. In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail. In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement between such parties shall take precedence over a previously executed Supplemental Agreement between such parties. In the event of any inconsistency between a Supplemental Agreement between the Parties and any component of the Implementation Plan, the terms of the relevant Supplemental Agreement shall prevail.

Section 5.8 Indemnification. The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any such persons, an "*MCC Indemnified Party*") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damages which (i) are (directly or indirectly) suffered or incurred by such MCC Indemnified Party, or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (ii) arise from or as a result of the negligence or willful misconduct of the Government, any Government Affiliate, or any Permitted Designee,

(directly or indirectly) connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 5.8 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5.8.

Section 5.9 Headings. The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact.

Section 5.10 Interpretation; Definitions.

(a) Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise.

(b) Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Government Affiliate or Permitted Designee, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise.

(c) References to "day" or "days" shall be calendar days unless provided otherwise.

(d) The term "*U.S. Government*" shall, for the purposes of this Compact, mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

(e) The term "*Affiliate*" of a party is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence.

(f) The term "*Government Affiliate*" is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government.

(g) References to any Affiliate or Government Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

(h) Any references to "*Supplemental Agreement between the Parties*" shall mean any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Section 5.11 Signatures. Other than a signature to this Compact or an amendment to this Compact pursuant to Section 5.3, a signature delivered by facsimile or electronic mail in

accordance with Section 5.1 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

Section 5.12 Designation. MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement between the Parties.

Section 5.13 Survival. Any Government Responsibilities, covenants, or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms. Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force: Sections 2.2, 2.3, 2.5, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 (for one year), 3.12, 5.1, 5.2, 5.4(d), 5.4(e) (for sixty days), 5.4(f), 5.4(g), 5.4(h), 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, this Section 5.13, 5.14, and 5.15.

Section 5.14 Consultation. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within 20 days from the commencement of the consultations then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than 45 days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.4(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

Section 5.15 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. As such, MCC has no liability under this Compact, is immune from any action or proceeding arising under or relating to this Compact and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, MCC is not subject to the jurisdiction of the courts or other body of Georgia.

Section 5.16 Language. This Compact is prepared in English and in the event of any ambiguity or conflict between this official English version and any other version translated into any language for the convenience of the Parties, this official English version shall prevail.

Section 5.17 Publicity; Information and Marking. The Government shall give appropriate publicity to this Compact as a program to which the United States, through MCC, has contributed, including by posting this Compact, and any amendments thereto, on the MCA-Georgia Website, identifying Program activity sites, and marking Program Assets; *provided*, any

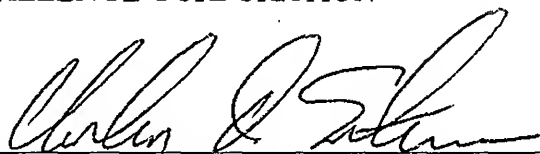
announcement, press release or statement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC, including the publicity described in this Section 5.17, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the MCA-Georgia Website.

[SIGNATURE PAGE BEGINS ON THE NEXT PAGE.]

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact this 12th day of September, 2005 and this Compact shall enter into force in accordance with Section 1.3.

Done at New York, NY in the English language.

FOR THE UNITED STATES OF AMERICA,
ACTING THROUGH THE MILLENNIUM
CHALLENGE CORPORATION

A handwritten signature in dark ink, appearing to read 'Charles O. Sethness', written over a horizontal line.

Name: Charles O. Sethness
Title: Vice President

FOR THE GOVERNMENT OF GEORGIA

A handwritten signature in dark ink, appearing to read 'Salome Zourabichvili', written over a horizontal line.

Name: Salome Zourabichvili
Title: Minister of Foreign Affairs of Georgia

EXHIBIT A DEFINITIONS

The following compendium of capitalized terms that are used herein is provided for the convenience of the reader. To the extent that there is a conflict or inconsistency between the definitions in this Exhibit A and the definitions elsewhere in the text of this Compact, the definition elsewhere in this Compact shall prevail over the definition in this Exhibit A.

Accrued Interest is any interest or other earnings on MCC Funding that accrues or are earned.

Act means the Millennium Challenge Act of 2003, as amended.

ADA means the Agribusiness Development Activity, a Project Activity under the Enterprise Development Project described in Section 2(b) of Schedule 2 of Annex I.

ADA Manager means the manager who will be selected to set up and manage the Agribusiness Development Activity.

Additional Representative is a representative as may be designated by a Principal Representative, by written notice, for all purposes other than signing amendments to this Compact.

Affiliate means the affiliate of a party, which is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence. References to Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

Agreed Standards shall have the meaning set forth in Section 6(a)(ii)(4)(A) of Schedule 1 of Annex I.

Attachments are any annex, schedule, exhibit, table, appendix or other attachment expressly attached to this Compact.

Audit Guidelines means the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the Inspector General of the United States Agency for International Development.

Auditor means the auditor(s) as defined in, and engaged pursuant to, Section 3(h) of Annex I and as required by Section 3.8(d) of the Compact.

Auditor/Reviewer Agreement is an agreement between MCA-Georgia and each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer.

Bank(s) means each individually and collectively, any bank holding an account referenced in Section 4(d) of Annex I.

Bank Agreement means an agreement between MCA-Georgia and a Bank, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account.

Beneficiaries means the intended beneficiaries identified in accordance with Annex I.

Chair means the Chair of the Supervisory Board.

Chief Executive Officer means the Chief Executive Officer of MCA-Georgia.

Civil Observer is a representative of civil society nominated by the Stakeholders' Committee (as described in Section 3(d)(ii)(2)(B)(ii) of Annex I) to serve as a non-voting Observer on the Supervisory Board.

Compact means the Millennium Challenge Compact made between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Georgia.

Compact Goal means advancing economic growth and poverty reduction in Georgia.

Compact Records shall have the meaning set forth in Section 3.8(b).

Compact Reports are any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties.

Compact Term means the term for which this Compact shall remain in force, which shall be the five (5) year period from the Entry into Force, unless earlier terminated in accordance with Section 5.4.

Covered Provider shall have the meaning set forth in Section 3.8(d)(iv).

Designated Rights and Responsibilities shall have the meaning set forth in Section 3.2(c).

Detailed Financial Plan means the financial plans that detail the annual and quarterly budget and projected cash requirements for the Program (including administrative costs) and each Project, projected both on a commitment and cash requirement basis.

Disbursement Agreement is a Supplemental Agreement that MCC, the Government (or a mutually acceptable Government Affiliate and MCA-Georgia shall enter into that (i) further specifies the terms and conditions of any MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Georgia.

EBRD means European Bank for Reconstruction and Development.

Eligible Governmental Entity means each regional government, local government, local self-government, municipal utility or the central government (to the extent that it owns or operates assets in the Regions) that will receive RID Grants under a sub-activity of the Regional Infrastructure Development Activity as described in Section 2(c)(i) of Schedule 2 of Annex I.

Energy Advisors means the firm(s) that will be engaged to support the Ministry of Energy under a sub-activity of the Energy Rehabilitation Activity described in Section 2(b) of Schedule 1 of Annex I.

Energy Rehabilitation Activity is the Project Activity related to energy rehabilitation described in Section 2(b) of Schedule 1 of Annex I.

Enterprise Development Project is the project described in Schedule 2 of Annex I, that the Parties intend to implement in furtherance of the Enterprises in Regions Developed Objective.

Enterprises in Regions Developed Objective is the Project Objective of the Enterprise Development Project.

Entry into Force means the entry into force of this Compact, which shall be on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC.

Environmental Guidelines means the environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time.

ESI Manager means the environmental and social impact manager described in Section 5 of Schedule 1 of Annex I.

Evaluation Component means the component of the M&E Plan that specifies a methodology, process and timeline for the evaluation of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability.

Exempt Uses shall have the meaning set forth in Section 2.3(e)(ii).

Final Evaluation shall have the meaning set forth in Section 3(a) of Annex III.

Final Fund Documents shall have the meaning set forth in Section 2(a)(i) of Schedule 2 of Annex I.

Financial Plan means collectively, the Multi-Year Financial Plan and each Detailed Financial Plan, each amendment, supplement or other change thereto.

Financial Plan Annex means Annex II of this Compact, which summarizes the Multi-Year Financial Plan for the Program.

Fiscal Accountability Plan shall have the meaning set forth in Section 4(c) of Annex I.

Fiscal Agent shall have the mean set forth in Section 3(g) of Annex I.

Fiscal Agent Agreement is an agreement between MCA-Georgia and each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent.

GEL means Georgian Lari.

Georgia Regional Development Fund is an independently managed investment fund that will be created under the Investment Fund Activity of the Enterprise Development Project.

GGIC means Georgia Gas International Corporation.

Governance Regulations means the governance regulations promulgated in furtherance of the Compact and applicable law, which shall be in a form and substance satisfactory to MCC and which specify how MCA-Georgia shall be organized and what its roles and responsibilities are.

Government means the Government of Georgia.

Government Affiliate is an Affiliate, ministry, bureau, department, agency, government, corporation or any other entity chartered or established by the Government. References to Government Affiliate shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

Government Board Members are the government members identified in Section 3(d)(ii)(2)(A)(i-ii) of Annex I serving as voting members on the Supervisory Board, and any replacements thereof in accordance with Section 3(d)(ii)(2)(A) of Annex I.

Government Party means the Government, any Government Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents.

Government Responsibilities shall have the meaning set forth in Section 3.2(a).

GRDF means the Georgia Regional Development Fund as described in Section 2 of Schedule 2 of Annex I.

GRDF Governing Board means the governing board of the GRDF.

IFAD means the International Fund for Agricultural Development.

IFC means the International Finance Corporation.

Implementation Letter is a letter that may be issued by MCC from time to time to furnish additional information or guidance to assist the Government in the implementation of this Compact.

Implementation Plan is a detailed plan for the implementation of the Program and each Project, which will be memorialized in one or more documents and shall consist of: (i) a Financial Plan, (ii) a Fiscal Accountability Plan, (iii) a Procurement Plan, (iv) Program and Project Work Plans, and (v) an M&E Plan.

Implementing Entity means a Government agency, nongovernmental organization or other public- or private-sector entity or persons to which MCA-Georgia may provide MCC funding (directly or indirectly)

through an Outside Project Manager, to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact.

Implementing Entity Agreement is an agreement between MCA-Georgia (or the appropriate Outside Project Manager) and an Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity.

Indicative Term Sheet is a term sheet containing the indicative proposed terms of the GRDF as described in Section 2 of Schedule 2 of Annex I.

Indicator Baseline means the value of an Indicator for a Project Activity and Objective prior to it being affected by the Program.

Indicators means the quantitative, objective and reliable data that the M&E Plan will use to measure the results of the Program.

Inspector General means the Inspector General of the United States Agency for International Development.

Investment Committee is a committee of the GRDF as described in Section 2 of Schedule 2 of Annex I.

Investment Manager is the manager that will manage the GRDF as described in Section 2 of Schedule 2 of Annex I.

Investment Period means the investment period of the GRDF, which shall run for five years from the Entry into Force, subject to an earlier termination upon termination of the Compact as described in Section 2 of Schedule 2 of Annex I.

Key Regional Infrastructure Rehabilitated Objective is the Project Objective of the Regional Infrastructure Rehabilitation Project.

KfW means Kreditanstalt für Wiederaufbau.

Lien means any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind.

Local Account is an interest-bearing local currency of Georgia account at the commercial bank to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency.

M&E Annex means Annex III of this Compact, which generally describes the components of the M&E Plan for the Program.

M&E Plan means the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact.

Management Team means the management team of MCA-Georgia to have overall management responsibility for the implementation of this Compact and further described in Section 3(d)(iii) of Annex I.

Material Agreement shall have the meaning set forth in Section 3(c)(i)(3) of Annex I.

Material Re-Disbursement means any Re-Disbursement that requires MCC approval under applicable law, the Governance Regulations, the Procurement Agreement, Procurement Guidelines, or any Supplemental Agreement.

Material Terms of Reference means any terms of reference for the procurement of goods, services or works that require MCC approval under applicable law, the Governance Regulations, the Procurement Agreement, Procurement Guidelines, or any Supplemental Agreement.

MCA means the 2004 and 2005 Millennium Challenge Account.

MCA-Georgia shall have the meaning set forth in the Recitals.

MCA-Georgia Website means the website operated by MCA-Georgia.

MCA Eligibility Criteria means the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time.

MCC means the Millennium Challenge Corporation.

MCC Disbursement means the disbursement of MCC Funding by MCC to a Permitted Account or through such other mechanism agreed by the Parties as defined in and in accordance with Section 2.1(b)(i) of this Compact.

MCC Disbursement Request means the applicable request that the Government and MCA-Georgia will jointly submit for an MCC Disbursement as may be specified in the Disbursement Agreement.

MCC Funding shall have the meaning set forth in Section 2.1(a).

MCC Indemnified Party means MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative.

MCC Representative is a representative designated by MCC to serve as an Observer on the Supervisory Board.

MDDPII means the World Bank's Municipal Development and Decentralization Project II.

MDF means the Municipal Development Fund, an entity that will implement the Regional Infrastructure Development Activity and further described in Section 2(c)(iv) of Schedule 1 of Annex I.

Monitoring Component means the component of the M&E Plan that specifies how progress toward the Objectives and Project Activity Outcomes will be monitored.

Multi-Year Financial Plan means the multi-year financial plan for the Program and for each Project, which is summarized in Annex II.

Multi-Year Financial Plan Summary means a multi-year Financial plan summary attached to this Compact as Exhibit A of Annex II.

Non-Transfer Condition shall have the meaning set forth in Section 6(a)(ii)(3) of Schedule 1 of Annex I.

Objective(s) are the following objectives of this Compact that have been identified by the Parties, each of which is (i) key to advancing the Compact Goal and (ii) described in more detail in the Annexes attached hereto: (a) the Key Regional Infrastructure Rehabilitated Objective and (b) the Enterprises in Regions Developed Objective.

Objective Indicator means the Indicator for each Objective that will measure the final results of the Projects in order to monitor their success in meeting each of the Objectives. A table of Objective Indicator definitions is set forth at Section 2(b)(i) of Annex III.

Observers means the non-voting observers of the Supervisory Board.

OPIC means the Overseas Private Investment Corporation.

Outside Project Manager means the qualified persons or entities engaged by MCA-Georgia, to serve as outside project managers in accordance with Section 3(e) of Annex I.

Parliament Board Member is the member of Parliament identified in Section 3(d)(ii)(2)(A)(iii) of Annex I serving as voting members on the Supervisory Board, and any replacements thereof in accordance with Section 3(d)(ii)(A) of Annex I.

Parties means the United States, acting through MCC, and the Government.

Party means (i) the United States, acting through MCC or (ii) the Government.

Permitted Account(s) shall have the meaning set forth in Section 4(d) of Annex I.

Permitted Designee shall have the meaning set forth in Section 3.2(c).

Permitted SMEs shall have the meaning set forth in Section 2(a)(i)(3) of Schedule 2 of Annex I.

Pipeline means the north-south gas pipeline which is Georgia's main trunkline for the transmission of natural gas.

Pledge means any pledge of any MCC Funding or any Program Assets, or any guarantee (directly or indirectly) of any indebtedness.

Portfolio Company TA Facility means the Portfolio Company Technical Assistance Facility and further described in Section 2(a)(ii) of Schedule 2 of Annex I.

Principal Representative means (i) for the Government, the individual holding the position of, or acting as, the Prime Minister of Georgia, and (ii) for MCC, the individual holding the position of, or acting as, the Vice President for Country Programs.

Procurement Agent(s) are the procurement agents that MCA-Georgia will engage to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Georgia, any Outside Project Manager or Implementing Entity.

Procurement Agent Agreement is the agreement that MCA-Georgia enters into with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent.

Procurement Agreement is a Supplemental Agreement between the Parties, which includes the Procurement Guidelines, and governs the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact.

Procurement Guidelines shall have the meaning set forth in Section 3.6(a).

Procurement Plan means a procurement plan adopted by MCA-Georgia, which plan shall forecast the upcoming six month procurement activities and be updated every six months.

Program means a program, to be implemented under this Compact, using MCC Funding to advance Georgia's progress towards economic growth and poverty reduction.

Program Annex means Annex I to this Compact, which generally describes the Program that MCC Funding will support in Georgia during the Compact Term and the results to be achieved from the investment of MCC Funding.

Program Assets means (i) MCC Funding, (ii) Accrued Interest, or (iii) any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part by MCC Funding.

Program Objective means the overall objective of this Compact, which is to increase economic growth and poverty reduction in the regions of Georgia outside of Tbilisi, which is key to advancing the Compact Goal.

Project(s) are the Regional Infrastructure Rehabilitation Project and the Enterprise Development Project, and the policy reforms and other activities related thereto that the Government will carry out, or cause to be carried out in furtherance of this Compact to achieve the Objectives and the Compact Goal.

Project Activity means the activities that will be undertaken in furtherance of each Project.

Project Activity Outcome means the outcomes of each Project Activity, which are described in more detail in Annex III.

Project Activity Outcome Indicator is an indicator that will measure the intermediate results achieved under each of the Project Activities, each of which is described in more detail Annex III.

Project Objective(s) means the project-level objectives that will advance the program objective, each of which is described in more detail in Annex III.

Project Road means each of several sub-activities of the Road Rehabilitation Activity described in Section 2(a) of Schedule 1 of Annex I.

Proposal is the proposal for use of MCA assistance submitted to MCC by the Government on September 24, 2004.

Provider shall have the meaning set forth in Section 2.4(b).

PRSP is the Poverty Reduction Strategy that Georgia developed in 2003 that describes the macroeconomic, structural and social policies and programs needed to boost economic growth and reduce rates of extreme poverty.

RDMED means the Road Department of the Ministry of Economic Development.

Re-Disbursement is the release of MCC Funding from a Permitted Account.

Regional Infrastructure Development Activity is the Project Activity described in Section 2(c) of Schedule 1 of Annex I under the Regional Infrastructure Rehabilitation Project.

Regional Infrastructure Rehabilitation Project is the Project described in Schedule 1 of Annex I, that the Parties intend to implement in furtherance of the Key Regional Infrastructure Rehabilitated Objective.

Regions means regions outside the capital city of Tbilisi.

Reviewer shall have the meaning set forth in Section 3(h) of Annex I.

RID Grants are the grants that will be made to Eligible Governmental Entities under a sub-activity of the Regional Infrastructure Development Activity, as described in Section 2(c)(i) of Schedule 1 of Annex I.

RID Operations Manual is an operations manual of the Regional Infrastructure Development Activity and further described in Section 2(c)(iii) of Schedule 1 of Annex I.

RID Projects are projects of the Regional Infrastructure Development Activity and described in Section 2(c)(i) of Schedule 1 to Annex I.

Road Rehabilitation Activity is the Samtskhe-Javakheti Road Project Activity described in Section 2(a) of Schedule 1 of Annex I.

Rural Enterprise Grants are grants that will be given to groups of farmers and to private enterprises under the Agribusiness Development Activity as described in Section 2(b)(iii) of Schedule 2 of Annex I.

Service Providers are third-party consultants and other service providers.

SMEs means small and medium enterprises.

Special Account means a single, completely separate U.S. Dollar interest-bearing account at a commercial bank to receive MCC Disbursements.

Stakeholders' Committee means the committee of MCA-Georgia to provide feedback on Program activities to the Supervisory Board and the Management Team and further described in Section 3(d)(iv) of Annex I.

Strategic Vision means the Government's Strategic Vision and Urgent Financing priorities, 2004-2006.

Supervisory Board means the independent board of directors of MCA-Georgia to oversee MCA-Georgia's responsibilities and obligations under this Compact and further described in Section 3(d)(ii) of Annex I.

Supplemental Agreement shall have the meaning set forth in Section 3.5(b).

Supplemental Agreement Between the Parties means any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Supplemental Agreement Term Sheets means one or more term sheets that the Government (or mutually acceptable Government Affiliate) and MCC shall execute that set forth the material and principal terms and conditions of each of the Supplemental Agreements identified in Exhibit B attached hereto.

Target means one or more expected results that specify the expected value and the expected time by which that result will be achieved.

Tax(es) shall have the meaning set forth in Section 2.3(e)(i).

UNDP means the United Nations Development Programme.

USAID means the United States Agency for International Development.

USDA means the United States Department of Agriculture.

U.S. Government shall mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

United States Dollars (USD) means the currency of the United States of America.

Voting Members are the voting members on the Supervisory Board described in Section 3(d)(ii)(2) of Annex I.

Work Plans means work plans for the overall administration of the Program and for each Project.

EXHIBIT B
LIST OF CERTAIN SUPPLEMENTAL AGREEMENTS

1. Governance Agreement
2. Form of Fiscal Agent Agreement
3. Form of Implementing Entity Agreement
4. Form of Bank Agreement

ANNEX I

PROGRAM DESCRIPTION

This Annex I to the Compact (the "*Program Annex*") generally describes the Program that MCC Funding will support in Georgia during the Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Georgia shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Georgia (the "*Disbursement Agreement*").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

1. Background; Consultative Process.

(a) Background and Georgia Development Strategy. Since the collapse of the Soviet Union, Georgia has faced regional instability, civil conflict, deterioration of infrastructure, decline of enterprises and investments, and a decrease in human productivity. Since the Rose Revolution in November 2003, the Government has taken decisive steps to promote stability, good government and private enterprise development. Georgia is working to build a stronger, more integrated national economy and to stimulate economic growth in the regions outside the capital city of Tbilisi (the "*Regions*"), where poor infrastructure and a poor business environment represent major obstacles to development. Rural Georgia has been affected by rising poverty and weak economic growth. More than 2 million people, or about 40% of the country's total population, live in the Regions, and poverty in rural Georgia grew by 16% per year, rising from 13.4% in 1997 to 20.9% in 2000. In some parts of the Regions, more than 50% of rural households live below the official poverty line.

Georgia's 2003 Poverty Reduction Strategy Paper ("*PRSP*") describes the macroeconomic, structural and social policies and programs needed to boost economic growth and reduce rates of extreme poverty. Among its priorities, the PRSP specifically targets the development of priority sectors of the economy, namely energy, transport, communications, agriculture and tourism. These sectors are vital to the functioning of a sound economy. The PRSP notes that poverty in the Regions is closely tied to the lack of financial resources and the underdevelopment of infrastructure, which together reduce the ability of the poor to access jobs and services such as energy, healthcare, and education. In June 2004, the Government presented its *Strategic Vision and Urgent Financing Priorities, 2004-2006* ("*Strategic Vision*") to the Donor's Conference in Brussels. The Strategic Vision reinforces the priorities set out in the PRSP, with five main areas of action. Of particular note among them are efforts to rehabilitate the energy sector, stimulate private sector development, and promote sustainable development in the Regions through a focus on infrastructure, trade and transport and agriculture.